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FOREIGN AGRICULTURE

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1969 Outlook Conference

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FOREIGN AGRICULTURE

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This week's cover:

An identical assemblage of words—silk-screened onto large standing panels—served as a stage backdrop for speakers and a visual reminder to delegates of the problems, targets, and goals of the Outlook Conference.

Clifford M. Hardin, Secretary of Agriculture
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Raymond A. Ioanes, Administrator, Foreign Agricultural Service

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Forty-six years ago, 18 economists met behind closed doors to review the economic and agricultural outlook for this country—information that later was distributed to farmers for help in planning ahead. So successful was this first meeting that another was held in the same year and plans were finalized for an annual National Agricultural Outlook Conference—still a unique service provided by the U.S. Government.

The most recent of these conferences, held in Washington, D.C., last month, was a stark contrast to that original outlook session. About 300 registered delegates and scores of others converged on the USDA for 3 days (February 17-19) of speeches, seminars, and panel discussions on subjects ranging from grain prospects to problems of low-income families. Participants represented practically all agricultural interests—from State Departments of Agriculture, extension services, and land grant colleges; to agribusiness, Federal Reserve Banks, commodity brokers, importers, and exporters; to clergymen involved in rural poverty programs. Also, foreign government officials came to find out what effect the U.S. farm situation might have on production and trade back home.

While that first meeting had to be held in secrecy because of the dramatic effect resultant—and scarce—information might have on futures trade, the ones today receive wide publicity and are complemented by a year-round outlook service for major commodities plus regional outlook conferences.

In opening this year's meeting, Secretary of Agriculture Hardin harked back to his first conference—1944—and noted that some of the delegates to it were still coming back.

He also had some important news about USDA's focus under the new administration. One responsibility emphasized by Secretary Hardin was helping to overcome malnutrition. Speaking of this, Secretary Hardin said, "The Department of Agriculture has been given the major responsibility for the distribution of food for welfare purposes. . . . And we are hoping to move with every possible resource we can muster in this direction."

Secretary Hardin also laid stress on the foreign market—on finding ways to expand U.S. agricultural exports and on the European Common Market's negative impact on farm trade.

This emphasis was reflected in the outlook session, and *Foreign Agriculture* presents in the next seven pages excerpts from papers relating to trade and food problems.

OECD Director for Agriculture, Albert Simantov, suggests new crop production patterns and new directions for international trade to balance the world market for farm products.

OECD Agriculture Now Through 1985

The countries of the Organization for Economic Cooperation and Development (OECD)[1] have become increasingly more interdependent, reflecting the sustained and rapid growth of the individual national economies in the postwar period and especially since the mid-1950's. In this general development what has happened to agriculture and to agricultural trade?

Farm employment in the OECD declined between 1956 and 1966 by some 15 million people. This reduction has accelerated in recent years in most countries and is at present taking place at some 3-3.5 percent compounded annually (almost 4 percent if Turkey is excluded from the calculations). This is almost three times the rate at which the total population is increasing. The number of holdings also has been declining steadily since the early 1950's, primarily the small farms—below 25 acres in Europe and 50 acres in North America.

Production outpacing consumption

Agricultural production has been increasing as a result of the technological revolution, higher returns from labor input, and the result of price support policies pursued by almost every country. Because of the relatively high food consumption standards already reached in most OECD countries, increases in consumption have been insufficient to absorb all the increased output. Consequently, surplus stocks have accumulated and free market prices have been depressed. Farmers in all countries have shared in the increased well-being brought about by the fast rate of economic growth, but their income expectations are still largely unsatisfied.

Between 1960 and 1967 agricultural trade (in terms of the average of imports and exports at current prices) increased for the OECD area as a whole by 6.5 percent annually. This progression is significant but still short of the progressions registered by trade in other goods. This slower growth of agricultural trade is widely considered to be the consequence of the large number of import restrictions of all kinds that exist in all countries.

Trade within the OECD area as a whole and within reach of its sub-areas has grown at a substantially faster rate than global trade. This is true for both agriculture and the other commodities and has been particularly rapid in the case of the European Community.

Developments in food imports show that Japan and most of the Mediterranean countries have made the fastest increases, particularly because of their rapidly expanding per capita food consumption. At the other extreme is the United Kingdom, whose small expansion of consumption is the combined result of already high food intake and a relatively slow population increase. In European countries the leading force in import expansion has been increases in per capita consumption, while in North America the main force has come from population increases.

No single factor accounts for the wide differences in performance in agricultural exports. Countries with relatively large underutilized potentials seem to have done better than some of the traditional European exporters such as Denmark, Ireland, and the Netherlands. All commodity groups have shown important increases, especially those produced in the Temperate Zone. In the import side the most substantial increases are associated with increases in meat requirements.

Efficient producers not rewarded

In many cases the situation has given rise to concern as the efficient producers have not always been allowed to take full advantage of their efforts. Traditional trade flows have undergone important changes and new trade flows have tended to develop under new sets of conditions where efficiency has not always been the main criterion.

For the short term, the OECD has made analyses and projections for primarily dairy products, meat, and fruits and vegetables, which so far are not covered by any international arrangement aiming at a stabilization of the market. (Exceptions are the Gentleman's Agreement for Whole Milk Powder sponsored by the OECD and the Bacon Export Arrangement between the United Kingdom and its foreign suppliers.)

All forecasts of production and demand show that each of the commodities in OECD countries taken as a whole is increasing steadily at a rate now hardly influenced by temporary disturbances. In many cases, however, demand is rising at a slower rate. An important cause of the production increase lies in the permanent improvement of techniques and—in a great number of cases—price supports at relatively high levels. Price support policies are usually applied without discrimination to all producers regardless of quantities. The producers, who are then more anxious to produce than to sell, rely on the authorities to dispose of the increased production whatever the method used—import restrictions, export aids, consumer subsidies, denaturation, and even destruction.

Biggest problem is dairy products

The most typical case and, no doubt, the most difficult to solve concerns dairy products. It appears that for the coming years, a considerable surplus of milk will occur unless corrective measures are applied very soon. Even though the increase in the volume of production in the OECD countries as a whole is rather small (an average of 1 percent annually since the early 1960's) more important increases are being registered in Ireland, Austria, Norway, Switzerland, and above all within the European Community.

Dairy production of the EC in particular increased by 3.5

[1] Full members of the OECD are Austria, Belgium, Canada, Denmark, France, Germany (West), Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States, and Finland; and Yugoslavia has special status.

percent a year from 1965 to 1967 and this rate was probably exceeded in 1968. Such a rise in production would not in itself be excessive, but consumption is decreasing or stagnating except in Japan and in the Mediterranean countries. Stocks of butter in the OECD countries in September 1968 had reached a tonnage close to that of the annual world trade.

Different problems are raised by beef production. Strong demand should be maintained in the coming years provided consumer prices remain reasonable. Surveys show that in most countries production can be expected to grow until 1970 and beyond, sometimes at an appreciable rate. However, this will not allow the OECD as a whole—nor any one of its three large geographical zones—to satisfy its needs. Latest estimates (November 1968) suggest that the deficit might not exceed 1 million tons—300,000 for the United States and 500,000-600,000 for the EC.

The production situation for fruits and vegetables in Europe can be expected to worsen in the years to come. Consumption in all countries can be expected to increase but will remain appreciably below the level of production.

ANNUAL INCREASES IN THE VALUE OF FOREIGN TRADE, 1960-1967, SELECTED AREAS

Area	Gross trade [1] (including trade within)		Trade within area [2]	
	Total [3]	Agriculture	Total [3]	Agriculture
	Percent compound	*Percent compound*	*Percent compound*	*Percent compound*
OECD	8.6	6.5	9.9	7.6
OECD Europe	8.4	6.5	10.8	10.6
EC	9.3	7.9	13.3	13.3
EFTA	6.6	4.2	10.5	7.6
North America	7.9	5.4	—	—
Japan	14.7	13.8	—	—

[1] Average of sum of countries' imports (at c.i.f. values, except for Canada and the United States where they are at f.o.b. values) and of exports (at f.o.b. values) at current prices and exchange rates. [2] Based on export values at current prices and exchange rates. [3] SITC 0/9. [4] SITC 0, 1, 4, 22 and 29.

OECD, Statistical Bulletins, *Foreign Trade*, Series B. For Japan, National sources.

Projections for the longer term

The OECD projects that the OECD area and Oceania have the potential to expand food production well beyond their own needs. Moreover, this extra production could be obtained without any special stimulus to output, simply on the basis of present policies. These statements are made on the assumption that present policies would remain broadly unchanged and prices and costs would continue to develop the same way as in recent years.

The potential would take the form primarily of net export availability of grain, which would rise from 20 million tons in 1961-63 (6 percent of production) to 90 million in 1975 (19 percent of production) and 121 million in 1985 (21 percent).

By far the larger of these net exports would come from the United States and Canada; Australia too would increase its exports. At the same time, the traditional importing countries in Europe would become more self-sufficient, and net imports by the EC and other countries of northwestern Europe would fall off. The results for the southern European countries are largely influenced by increased export availabilities from Yugoslavia. The only country likely to substantially increase its import of grain is Japan.

In dairy products, the EC, Oceania, and North America have exported in quantities exceeding the amounts imported by the other OECD countries, in terms of both butterfat and nonfat solids. It appears that Australia and New Zealand

TRENDS IN AGRICULTURAL AND FOOD TRADE IN THE OECD,[1] 1960 TO 1966

Country	Agricultural imports [2]		Agricultural exports [2]		Agricultural trade [2] (imports + exports)	Total trade [3]
	Share of OECD total 1966	Annual rate of increase 1960-66	Share of OECD total 1966	Annual rate of increase 1960-66	Annual rate of increase 1960-66	Annual rate of increase 1960-66
	Percent	*Percent compound*	*Percent*	*Percent compound*	*Percent compound*	*Percent compound*
Austria	1.2	6.6	0.4	7.5	6.8	8.0
Belgium-Luxembourg	3.6	9.0	2.7	17.5	11.4	10.4
Canada	3.0	3.6	10.3	9.7	7.6	8.9
Denmark	1.7	5.9	6.4	5.6	5.7	8.8
France	8.2	6.4	9.5	11.2	8.3	9.5
Germany	16.0	8.2	2.8	10.9	8.5	10.0
Greece	0.6	13.4	1,4	11.4	12.2	10.3
Iceland	0.1	8.1	0.7	13.0	12.3	11.6
Ireland	0.7	8.6	2.0	6.4	7.2	8.4
Italy	7.4	13.5	4.9	7.3	11.3	12.0
Japan	7.9	18.4	2.2	7.4	15.6	14.7
Netherlands	4.5	7.5	9.6	6.6	7.0	9.5
Norway	1.0	5.6	1.5	7.6	6.6	9.2
Portugal	0.6	14.5	0.8	10.5	12.5	11.2
Spain	2.5	27.4	2.9	6.1	14.7	22.2
Sweden	2.2	8.2	0.7	7.6	8.1	8.4
Switzerland	2.4	8.0	1.0	9.3	8.2	9.7
Turkey	0.2	4.7	1.5	4.8	4.7	7.5
United Kingdom	18.6	1.6	5.0	8.1	2.4	5.2
United States	17.6	5.1	33.7	8.8	7.1	8.1
Total	100.0	7.0	100.0	8.6	7.6	—
	Mil. U.S. dol.		*Mil. U.S. dol.*			
Total value	28,209	—	19,129	—	—	—

[1] At current prices. [2] Standard International Trade Classification 0, 1, 4, 22, and 29. [3] SITC 0/9.

OECD Statistical Bulletins, *Foreign Trade*, Series B.

would steadily increase their exports and would thus be the main source of the additional export quantities. The EC too would increase its net exports up to 1975.

In North America the number of cows is already falling quite rapidly, and although this trend is not expected to continue indefinitely the net export of dairy products is projected to fall off and eventually to turn into a net import provided U.S. policy would allow for such a development.

The countries of northwestern Europe other than the EC at present have a net import of dairy products in terms of butterfat but a net export in terms of nonfat solids. The net imports in terms of butterfat would remain about constant, while the net exports in terms of nonfat solids (mainly coming from Ireland and Denmark) would increase. Net imports by southern Europe and Japan would increase to some extent.

NET TRADE[1] IN MILK PRODUCTS, SELECTED AREAS

Area	In terms of butterfat			In terms of solids-nonfat		
	1961-63	1975	1985	1961-63	1975	1985
	1,000 metric tons	*1,000 metric tons*	*1,000 metric tons*	*1,000 metric tons*	*1,000 metric tons*	*1,000 metric tons*
North America	+ 68	+ 22	− 42	+453	+ 75	−213
EC	+ 50	+289	+255	+117	+641	+466
Other N.W. Europe	−218	−201	−228	+ 89	+271	+311
S. Europe	− 16	− 56	−100	− 47	− 63	− 75
Japan	− 2	− 23	− 31	− 57	− 97	−119
Oceania	+269	+355	+400	+213	+415	+522
Total	+151	+386	+254	+768	+1,242	+892

[1] Exports +; imports −.

OECD, *Agricultural Projections for 1975 and 1985*, Paris, 1968.

For beef and veal the projections show a rising net import requirement by the OECD area. Consumption of beef is particularly responsive to income growth, so that substantial increases in demand have been projected in spite of the assumption that the relative price of beef will continue to rise. On the other hand, the growth of beef production in the European countries and in Japan is hampered by existing farm structures. Australia and New Zealand can be expected to increase their exports, but not to the extent sufficient to meet the import demand of the OECD region. The remaining demand may be met to some extent by South America, but it is most unlikely to be met in full.

NET TRADE[1] IN BEEF AND VEAL, SELECTED AREAS
[carcass weight equivalent]

Area	1961-63	1975	1985
	1,000 metric tons	*1,000 metric tons*	*1,000 metric tons*
North America	−368	−1,366	−1,541
Europe	−442	−1,061	−1,442
Japan	− 5	− 104	− 106
Oceania	+559	+ 870	−1,182
Total	−256	−1,661	−1,907

[1] Exports +; imports −.

OECD, *Agricultural Projections for 1975 and 1985*, Paris, 1968.

To what extent could the projected export availabilities of grain and dairy produce be absorbed by exports to other regions? It seems most unlikely that anything like the 90 million tons of cereals projected as net exports for 1975 could be taken up by the other regions. Preliminary calculations by FAO made 2 or 3 years ago estimated the net import requirements of these other regions as not exceeding 27 million tons. Since these calculations were made, successes with new varieties of wheat and rice have considerably increased optimism as to the prospects of self-sufficiency in major less developed countries such as India and Pakistan.

The future trade position of the Soviet Union, other East European countries, and Mainland China is difficult to foresee precisely. A few years ago the USSR, following bad harvests, had to import grains; and Mainland China too has resorted to large grain imports. But in the long term, the Soviet Union is more likely to be a grain exporter than an importer and should at least be able to satisfy the requirements of the other East European countries. Mainland China is more likely to raise its imports, but vigorous steps have been taken to control population growth; and it is unlikely that imports will be allowed to grow beyond a certain point.

Dairy products present a more difficult disposal problem. The butterfat element is less urgently required in the less developed countries and is much more difficult and costly to transport and store. East European countries are more likely to be competitors than customers on the world dairy products market.

How long will it be possible to consider the international market as the outlet for any unwanted production, with the consequential increasing discrepancy between domestic and international prices? For example, grain and butter prices vary between countries from 1 to 3, sugar prices vary from 1 to 5. Domestic and international prices may vary between 1 and 8 as is the case now with butter. The loss is suffered by the producers or by the treasuries in exporting countries. The limit will soon be reached.

Claims on national treasuries go beyond the granting of export subsidies. There are subsidies of all kinds—price, income, input, land reclamation and structural improvements, social benefits, training courses, rural areas development programs, and many others. How long will it be possible to keep increasing these appropriations—especially those devoted to price and income support and to market equilibrium? Government expenditures for agriculture are increasing in almost every country, although agriculture is a constantly declining part of the national product. These expenditures are representing in many cases a constantly bigger proportion of the value of agriculture's output.

Regional specialization

Our preoccupations are not exclusively financial; we are also concerned with the prospects for international trade in agriculture. We believe that agriculture lends itself to trade more than most of the economic activities. As long as climate, soil, and structural conditions play an important role in determining the lines of farm production and cost structure, it would seem normal that big differences should occur between regions and countries. Why should the European countries not import more cereals from North America and Australia, and North America not import more dairy products from New Zealand and some European countries?

For many years the OECD through its analyses and reports has advocated the formulation of policies which would make of agriculture a modern economic sector in all countries. Such policies are almost bound to have beneficial effects on international trade and on the international division of labor based on sound regional specialization of production.

Difficulties cloud

The Outlook for the World Economy in 1969

I wish it were possible to report to you that I find the general outlook for the world economy most propitious for the year ahead. Unfortunately, the nature of the political, social, and economic problems confronting most of the world's nations is such that one can only report that continued difficulties lie ahead. This is not to say that the picture is universally bleak. The Common Market countries promise to achieve a good rate of growth, and Japan should again mark up a formidable rate of advance. Necessary adjustments to contain inflation could be carried through in the United States, the United Kingdom, Canada, and France.

Trade restrictions

It seems to me that recent experience points to the need for two basic changes in the world economic matters—new methods for making balance of payments adjustments and new initiatives for lowering barriers to trade and investment.

One of the great dangers in the current situation lies in the increasing resort to controls and restrictions to deal with what are thought to be temporary balance of payments problems. This nation is about as guilty as any other. We have a full-fledged system of exchange controls over foreign investment, import quotas in a number of important areas, and so-called voluntary arrangements in such areas as cotton textiles. Quota demands in other fields are gaining in strength.

At the same time, other nations have been turning increasingly to restrictionist policies. France and Germany imposed new controls against capital investment last year, while the British have had them for some time. Britain and France have installed barriers against imports.

The problem is that such moves, carried too far, can choke off the interchange of people, investment, and goods which has played such an important part in the prosperity of the past 2 decades.

This move toward controls was not deliberately planned. It has come about because nations have had to deal with balance of payments problems. The balance of payments problems came about primarily because of domestic inflation, and partially because of ambitious overseas commitments on the part of some nations, notably the United States and the United Kingdom.

The basic remedies appear quite obvious. Nations in balance of payments deficit should get domestic inflation under control and restrict foreign commitments. This is obviously easier to say than do. Yet under the current system of fixed exchange rates, there is no good alternative other than measures of restraint.

This raises the question as to whether there might not be a better way to arrange the world's financial affairs. One theoretical way out would be to adopt a system of flexible exchange rates. This is very neat in theory, but no one believes it would work in practice. Another suggestion is that the price of gold should be doubled or trebled. This could prove to be highly inflationary, and it would merely delay the day of reckoning.

Yet there are some things which might prove both useful and acceptable. One measure which has already been invented, though not as yet adopted, is to create what has been termed Selective Drawing Rights, or SDR's. The SDR's would supplement gold in international reserves.

One of the sticky elements of the current problem is that some nations, most notably West Germany, Italy, and Japan, are running balance of payments surpluses. They are under little pressure to end such surpluses, nor would it be easy for them to do so.

Meantime, new gold production is insufficient to meet the world demand for monetary uses, even if it all flowed into central banks. In fact, almost all of it is flowing into hoards. Issuance of the SDR's, which would add to world monetary reserves, would ease, though not eliminate, the problems of deficit nations. In my view the SDR's should be activated as soon as possible, and in amounts sufficient to support a reasonable growth in world monetary reserves.

Another set of proposals which deserve careful study would involve somewhat greater flexibility in the exchange rate structure. At present, exchange rates can vary only 1 percent from the official parity. This seems unduly restrictive. The neatest idea is what has been termed the Crawling Peg, which I regard as bad terminology. I would call it the Dynamic Peg. Exchange rates would be allowed to move in a range of, say, 3 percent over a year. Any rate which stayed on the floor for the year would be reduced 3 percent for the ensuing year and vice versa. This would provide many of the advantages of floating rates without creating uncertainty.

These changes in the world financial structure—the SDR's and possibly something like the Dynamic Peg—would improve the structure. Yet they would not absolve nations in deficit from responsibility for taking steps to end deficits.

The U.S. balance of payments

Indeed, the key to the viability of the world financial structure lies in the U.S. balance of payments and confidence in the dollar.

Confidence in the dollar is high at the moment. The turmoil in Europe last year emphasized the basic strength of the dollar. Our action at mid-year to raise taxes and restrain expenditures reinforced faith in the dollar, as did estimates that the U.S. balance of payments showed a surplus for 1968.

But things are really not all that good. Last year's payments surplus was partly due to window-dressing in the form of the sale of special Treasury long-term securities to West Germany and Canada, and partly due to a huge inflow of investment into American common stocks.

Figured properly, our basic balance of payments deficit last year was probably not far from $3 billion, not much improved from the $3.6 billion in 1967 and well above the deficits in 1965 and 1966. Moreover, we still have strict controls over foreign investment.

Inflation was a major factor. This shows up in the surge in imports. In earlier years, imports had risen reasonably in line with the growth in the economy. Yet from the third quarter of 1967 to the third quarter of last year they soared from $26 billion to $34 billion, an increase of over 30 percent.

The tried and true method for checking domestic inflation and improving a nation's balance of payments is to apply policies of fiscal and monetary restraint. This is now being done—about 3 years too late. We have already moved from an enormous deficit in the federal budget in fiscal 1968 to balance or a small surplus for the current fiscal year. This is one of the biggest and quickest shifts in fiscal policy on record.

Other nations will react to changes in

the United States in differing fashion as dictated by their own internal situations. It may well be one of the salient features of the postwar world that the economies of major nations have not moved up and down in the same pattern.

Such a diverse pattern promises to be the pattern in Europe this year. For Western Europe as a whole, most estimates look to a growth rate in real terms of about 5 percent, or a little less than last year. Nonetheless, the picture is mixed, and there are some possible problems in Britain and France.

The British are still struggling to regain a surplus in international payments to restore viable domestic prosperity and repay the heavy borrowings from abroad used to defend the pound in recent years. Efforts to date, including the devaluation in late 1967, have been disappointing. A major reason has been continuing inflation which has kept import demand high. New measures to restrain consumer demand are likely, but there are problems in keeping wage increases in line with productivity. Real economic growth will probably not exceed 3 percent.

The pound sterling has been under pressure in exchange markets. Any new crisis in world financial markets would be likely to accentuate pressures on sterling. However, if another crisis should develop, the odds are that the British would turn to further controls and restrictions—one of the dangers in the current situation.

France is beset by both social and economic problems. Little has been done to remove the basic conditions which led to last year's strikes by workers and students. Wages are expected to increase 10 percent this year, posing severe problems of containing inflation and balancing international payments. There is room for some expansion in real production, which might rise 5 percent this year as against 3½ percent in 1968. But it will not be easy in economic or social terms to defend the present parity of the franc.

West Germany and Italy are in a phase of strong economic expansion which promises to carry through this year. Both should achieve a rate of real economic growth this year in excess of 5 percent. Longer-term prospects for Italy are beclouded by social and political unrest and by lagging private investment.

In face of predictions of economic adjustment last year, Japan turned in another record of 10 percent to 11 percent real growth. The balance of payments surplus exceeded $1 billion. Prospects favor another year of good growth this year. However, the slowdown in the U.S. economy and the possibility of "voluntary" restraints on exports of textiles, steel, and TV to the United States (30 percent of Japan's exports) raise some questions about the longer term. So does the continuing increase in domestic wages and prices which are bound over time to reduce Japan's competitive edge in world markets for many industrial products.

Trends in Canada obviously reflect those in the United States. The Canadian Government is moving to policies of restraint, which imply some slowing in the rate of growth. It may be somewhat less marked than in the United States. But there is likely to be some slowing in Canadian imports and a decline in the trade surplus from last year's large $1.25 billion. Canada's balance of payments position should remain comfortable.

—From paper by WILLIAM F. BUTLER
Vice President, Chase Manhattan Bank

Large World Crops, Protectionism Hurt U.S. Farm Export Prospects

Our agricultural exports, considering all the problems, will hold up fairly well.

In this 1968-69 year, farm product shipments should be around $6.0 billion —not too much less than last year's total of $6.3 billion, but substantially below the high mark of $6.8 billion that we set in fiscal year 1967. We look for dollar sales, including barter, to approach $5.0 billion —a little under last year's level.

While exports of $6.0 billion are good, we'd all like to see them regain the momentum they had a few years ago. And they can pick up again if some major importing areas finally decide that they want to trade—that they are ready to adjust some of their domestic farm policies in the interest of enlarged commerce.

Some pluses and minuses

On the credit side of the present situation is the continued economic growth taking place around the world. This growth is providing the income improvement that is enabling the people of Europe, Japan, and many other areas to enjoy higher standards of living. That income base is essential to all our hopes of expanding farm product shipments.

Also a credit is the extensive agricultural market development work the United States is carrying on in some 70 foreign countries. This work, which involves almost every major farm product, is helping us capitalize on the generally favorable economic climate abroad.

But there's the other side of the ledger. There we see increasing protectionism and increasing competition.

Agricultural protectionism hits our exports in several ways. Trade walls hamper our exports to the protecting countries, of course. And the high supported prices that the trade walls protect reduce consumer demand. Protectionism also gives us increased export competition.

Weather, which can cause as much as a 25-percent variation in crop yields, adds to our competition problems in some years. In 1968, for example, weather contributed much to large harvests of wheat in importing countries as well as the exporting countries. Not only was there less demand for our grain from the importing countries, but the other exporting countries had more grain than usual to sell in the world market.

Agricultural technology, which is improving crop yields almost everywhere, also is having an effect on trade. Crop yields are rising in the developing countries, as well as in industrialized nations.

Also, the value and volume of U.S. agricultural exports have been affected by the dock strike that began December 20. Some foreign buyers stocked up before the strike, which reduces the losses to some extent. But as the work stoppage held on, many customers turned to other sources of supply—temporarily, we hope.

The problem that led to Japan's withdrawal from the U.S. wheat market for several weeks was unprecedented. There were no guidelines for coping with such an unusual situation; yet, it had to be handled. Eventually a solution was found. Although the episode resulted in the loss of some wheat exports, Japan is back in the U.S. market now—and we can all be glad of that.

Commodity export outlook

Wheat: Exports are expected to be somewhere between 600 million and 625 million bushels—a sharp drop from the 761 million shipped a year earlier.

Rice: We expect rice exports this year to be at least as large as last year's 1.9 million metric tons.

Feedgrains: Total U.S. feedgrain ex-

ports in 1968-69 are expected to be between 19 and 20 million metric tons—a little less than the 20.2 million shipped a year earlier.

Soybeans and products: Prior to the dock strike, shipments of soybeans were expected to increase by 15 million bushels, meal by 300,000 short tons, and oil by about 100 million pounds. But the long duration of the strike may well mean that anticipated totals for soybeans and meal will not be realized.

Cotton: Exports of U.S. cotton in the 1969 marketing year are estimated at around 3.0 million bales—a sharp decline from the 4.2 million bales exported in 1968 and 4.7 million in 1967.

Tobacco: Shipments of tobacco in fiscal 1969 are expected to total about 560 million pounds (export weight), which is well above the 1960-64 average of 497 million pounds.

Poultry products: Exports of certain U.S. poultry items, such as turkey and chicken parts and specialty items, may equal or exceed levels of fiscal 1968.

Fruits and vegetables: We now expect a slight drop in exports of fresh and processed fruits from last year's value of $287 million. Exports of fresh and processed vegetables are expected to approximate last year's $127 million.

Livestock and products: The outlook for 1969 exports of beef breeding cattle is encouraging. U.S. animal byproducts, however, face strong competition.

Agricultural protectionism

Agricultural protectionism, which seems to come to a focus in the European Community, is continuing to affect the longer range outlook for farm product exports. The Community's own protectionism is a big factor, and I think that the area's lead has encouraged protectionism elsewhere. I'm thinking of the grain levies in the United Kingdom, and the slowness of some countries—Japan, for example—in easing import quotas. The 126 import quota bills introduced in Congress shows that the protectionist virus has spread even to the United States.

But it's the Community's protectionism that I want to emphasize for two reasons: First, the Community is our largest single market for farm products. Second, some of our most serious trade problems trace to its variable import system.

Let me review the four phases of our relationships with the Community:

Phase 1 was from 1958 to 1962 when the Community was starting to integrate its industry but still had little or no integration of its agriculture. The booming European economy greatly stimulated demand for agricultural products. And because internal suppliers of agricultural commodities had no preferential position in the market, our exports to the Community rose sharply.

But we could see the handwriting on the wall. We feared that eventually the variable levy system would hurt our exports to the area.

Our misgivings were realized in *Phase 2*, which I think of as the *import substitution phase*. The Community started to integrate the market for certain agricultural commodities, such as poultry. They did this behind high variable levy walls of protection. As their production expanded, imports of U.S. poultry into the Community were reduced. This led to the so-called Chicken War. When that was over, the Contracting Parties of the General Agreement on Tariffs and Trade agreed that the United States could adjust its tariffs upward to compensate for the trade loss of $26 million.

Phase 3 I would call the *export disposal phase*. The Community is still in the middle of this one.

The Community and Denmark used export subsidies to penetrate the poultry market we had developed in Switzerland. As a result, our shipments of frozen chicken meat to Switzerland dropped sharply. So the Department of Agriculture in April 1968 resumed its subsidies on poultry exports to Switzerland. Our subsidies worked. U.S. exports of frozen chickens (to Switzerland) rose from 700 thousand pounds in 1967 to over 6 million pounds in 1968.

We are prepared to end *our* subsidies the minute the EC ends *its* subsidies.

Phase 3 leads right to *Phase 4*, which is the *pocketbook phase* for the Community. It's a phase that's cause for deepest concern in the Community because of rapidly rising costs of the farm program. These costs have risen from $500 million in 1960 to $2.0 billion in 1968-69.

The piling up of surpluses, plus the huge outlays required for the Community's overall agricultural program, make changes inevitable. Proposals already have been put forward. But whatever form the changes finally take, the problem of protected high prices must be recognized—because that leads to other problems for us and our trading partners.

Right now the Community has under consideration a plan to put an internal tax of $60 per metric ton on vegetable and marine oils, and $30 per ton on meals. Community officials argue that they want to raise the price of meal—with the tax—to discourage milk production, and, incidentally, to encourage use of their own grain. They say they want to raise the price of oil in order to dampen production of margarine and reduce its competition with butter. They don't say that the guaranteed price for their milk is too high or that the price of their grain is too high. They say, in effect, soybean and soybean meal prices are too low.

The United States has taken a most vigorous stand against the Community's proposal. And well we might. Our trade with the Community in oilseeds and products is now about $500 million annually. Trade on that order is of enormous importance to our farmers, to the industries that support soybean production and exports, and to American workers.

We have consulted on this proposal with officials of the Community and with responsible officials of the member states. We have told them that such a tax would seriously affect U.S.-European Community relations. We have warned them, furthermore, that if the tax should be adopted there will inevitably be a confrontation. In other words, we would act swiftly to restore the balance of trade advantage between us.

Too high a price

Neither the United States nor its trading partners can afford the economic price the Community is asking that they pay to support its protectionist agricultural policy.

Trade walls are erected to protect the prices that countries want their farmers to get for agricultural products. So the actual hindrance to trade lies in domestic farm policies of the trading countries.

If trading countries are to reduce and eventually to remove subsidies and trade barriers, they must recognize that programs for maintaining farm income must not interfere unduly with the market price structure.

The United States has made progress in reconciling domestic farm programs and trade with respect to some major export commodities; the Europeans are taking a closer look at some of their own policies. If the right decisions are made, there will be improved prospects for an enlarged world farm trade—a trade in which the United States can share on an expanding basis.

—From paper by RAYMOND A. IOANES
Administrator, FAS

The World Food Situation in Perspective

Opinions about the nature and outlook for the world food problem have periodically swung like a pendulum between pessimism and optimism. Where does the truth lie? What is the situation and outlook regarding the food problem?

In evaluating such a situation it is important to keep in mind that—

- The basic information is not very good. The measures we have of food production, food availability, population, and nutritional needs in most of the poor countries are not very reliable.
- The procedures by which projections are made are, at best, capable of yielding results of limited reliability when extended very far into the future.
- Very important in evaluating the future of the world food problem is a judgment as to what the policies of various governments will be with regard to aid, trade and agricultural and population programs. These assumptions are extremely critical.

Hunger still prevalent

Despite reservations about some of the data, it is clear that there is much hunger in the world today. Perhaps two-thirds of the world's people live in countries which on the average don't have enough food to give everyone nutritionally adequate diets.

Diet-deficit areas include all of Asia except Japan, Taiwan, and Israel; all but the southern tip of Africa; Central America; and much of South America. As far as we can measure it, the calorie level of the diets of the people in these areas averages about three-fourths of that of people living in countries with adequate diets and on the average seems to be considerably below the amount which would be desirable for normal activity and health. There also is a deficiency of protein in diets of most poor countries.

According to our measurement, the amount of grain required to bring the average diets of the Free World poor countries up to a minimum nutritional level would amount to about 25 million metric tons. This would, of course, not guarantee everyone enough to eat.

What about the future? One of the major uncertainties is population growth.

In the February *Readers Digest*, Paul R. Ehrlich, author of *The Population Bomb*, said: "A tripling of the world's food supply will be necessary in the next 30 years, if the 7 billion people who may be alive in the year 2000 are to be adequately fed. . . . But it is increasingly clear that this is not going to happen. And even if there were such a miracle, it is already too late to prevent a drastic rise in the death rate through starvation."

On the other hand, Donald J. Bogue, Director of the Community and Family Study Center, the University of Chicago, has said: "The trend of the worldwide movement toward fertility control has already reached a state where declines in death rates are being surpassed by declines in birthrates. . . . The rate of population growth will slacken at such a pace that it will be zero or near zero at about the year 2000, so that population growth will not be regarded as a major social problem except in isolated and small 'retarded' areas."

New technology

What about the new technological breakthroughs and the "Green Revolution"?

There is evidence of a greater appreciation of the importance of agriculture in economic development, both in the poor countries and in the countries which give economic aid, including the United States. This was probably fostered by concern over the world food problem, a decline in surplus stocks, and the specific emphasis on agricultural development as a condition for U.S. food aid. A number of countries are spending more for fertilizer and generally increasing their agricultural budget. There seems to be a willingness to allow farm prices to go higher as a production incentive.

The most important technological development contributing to the improved outlook of the LDC's is the development of new high-yielding varieties of wheat, rice, corn, and sorghum. These new varieties of grain are much more responsive to heavy doses of fertilizer than are the traditional varieties. When grown under suitable conditions they can produce yields double those of the older varieties.

The most highly publicized, and thus far the most important, of the new grain varieties are the dwarf wheats developed in Mexico and the tropical rice varieties developed at the International Rice Research Institute in the Philippines. These two types of grain have already spread rather far in Asia. In India and Pakistan, the Mexican wheat now covers about 15 to 20 percent of total wheat acreage. In the 1968-69 crop season, the IRRI rice varieties will be planted on about 5 percent of total rice land in South and Southeast Asia.

Although it's difficult to evaluate the increase in production from the new varieties, we have estimated that they added perhaps 7 percent to rice production in Asia in 1968, compared with what production would have been without them. Wheat production in West and South Asia in 1968-69 may be about 20 percent higher because of the new wheat varieties. Such increases really are a tremendous achievement. Several countries which now import grain may soon be able to meet their own demand.

There are several factors which will probably impede the expansion of the new varieties of rice and wheat. Because they are new to the region where they are being introduced, the varieties may become susceptible to local disease and insects. Only farmers with reliable irrigation can afford the risk of borrowing money for fertilizer and chemicals required to effectively produce the new grain varieties. Drying has been a problem in some countries. Also, the new rice generally is not as well liked by consumers as traditional varieties and tends to be discounted in the market.

As production increases, farm prices may fall and the priority given to agriculture by the government of these countries may lessen. Unless the marketing and distribution facilities and institution are improved, price declines may give farmers much less incentive to adopt the new varieties and produce more with them. And, as some of these countries begin to produce a surplus over their own effective demand, the problem of finding export markets at satisfactory prices may become very important.

All these factors could slow the spread of the new technology and to some degree probably will. Therefore, we must not expect an agricultural revolution that will solve all the food problems of less-developed countries in the next few years. However, we can expect substantial additions to locally grown food supplies. This should relieve the pressure to produce or import grains to provide sufficient quantity of food and enable countries to plan for better quality diets.

—From paper by QUENTIN M. WEST
Director, Foreign Regional Analysis Division, Economic Research Service

Alumna shows her bakery.

Raisin Team On Trip

Off last month to evaluate the effects of the recent shift in raisin promotion emphasis from media advertising to store promotions was a 3-man team representing both FAS and the California Raisin Advisory Board. The team left February 13 to review the program activities of the joint FAS-CRAB market development program in Japan, Taiwan, the Philippines, and Western Europe.

CRAB will spend about $250,000 in government funds and an equal amount of CRAB funds to promote raisin sales abroad in FY 1969. After reviewing the result of the new promotion focus, the team (Gene Beals, Director of Marketing for CRAB, Phipps L. Rasmussen and Clinton Cook, FAS) will make recommendations on allotting these funds.

Holsteins to Portugal

The first consignment of U.S. dairy cattle ever exported to Portugal had a good reception. The cattle arrived in Lisbon December 26 for unloading and distribution to the 13 importing dairy farmers. This shipment included 72 top-quality U.S. Holstein-Friesian heifers—the best such group ever exported by the United States, according to the Holstein-Friesian Association of America.

Portuguese reactions to the cattle confirmed this good opinion. Portuguese Government officials, dairymen, and others present during the docking operations indicated that this was the best and most uniform group of exceptionally large Holstein-Friesian heifers that they had ever seen. Five calves, all males, had been born en route.

Bakery Boom in the Philippines

To help Philippine bakers get the most out of flour milled from U.S. wheat—so that more and more consumers will find their products both appealing and economical—is a primary aim of Wheat Associates, Inc., and FAS in the 3-year promotion program they began in 1967. Midway in that program, there are signs that this promotion effort is beginning to perpetuate itself.

Graduates of the Bakers' School set up by WA at the Philippine College of Arts and Trade in July 1967 are back from advanced training in the United States and have taken over the staffing of the school. The highly successful 5-week course in basic baking continues filled to capacity—proof that the graduates' teaching ability is maintaining the good reputation of the school and keeping up the flow of skilled local talent for the Philippine baking industry. The curriculum is scheduled for expansion. And the industry is expanding too, as others of the graduates open their own bakeries with the aid of the production and retailing procedures taught by the school. These new bakers report a good volume of business and satisfactory profits.

One such graduate is Mrs. Jasmines (shown at left in her shop, exhibiting holiday cakes to FAS Marketing Specialist Ed Seeborg). This bakery, which began operations last August, is literally a show-window for the Bakers' School and WA. Located in a corner building, it has two big plate-glass windows offering passers-by the complete picture of how the bread is mixed, baked, and sold. Interest among residents of the densely populated, "below middle class" neighborhood is high, as sales prove.

Richard Gonzalez, WA baking consultant in the Philippines, reports that Mrs. Jasmines, on Baking School advice, has hot *pan de sal* rolls for sale all day long but sells only over the counter. For 5 centavos (about 1¼ cents), her customers get about 2 ounces of baked bread, whereas at nearby bakeries and stores, the two rolls they get for their 5 centavos have a total weight of only just over one ounce. Not surprisingly, after her first 10 days of operation she was selling out of pan de sal every day. In that product alone, she was using 3½ bags of flour (50 lb. each) a day; her dough cost her 14 pesos (about $3.60) per bag for ingredients, and she got 32 pesos worth (about $8.00) of bread. Commented Mr. Gonzalez, "No commissions, no returns, and the customer gets about 65 percent more bread, fresher and of better quality for the same money. What a set-up! You can't lose."

Cake News in Japan

Three years of planning and preliminaries have culminated in a Wheat Associates project to introduce high-ratio cakes to Japan.

Now the most common type of cake in the United States, high-ratio bakery goods were first popularized here in the 1930's. U.S. consumers quickly found that these cakes, which carry a higher ratio of sugar to flour than the conventional sponge cake, have a better flavor and accept added flavors and ingredients better than the traditional cake. They also have a longer shelf life—an important item for commercial bakeries.

Since proper fineness of cake flour and high-quality shortening of the proper plasticity are critical factors in successfully producing high-ratio cakes, background work by Wheat Associates specialists included much contact with flour millers and shortening manufacturers. Assurance that the products would be up to standard at the onset was important and could mean higher use of Western White wheats.

Japanese flour mills and bakers have been particularly enthusiastic about this project because it offers the possibility of shifting cake from its current "holidays only" status into year-round consumption, as in America and Europe.

Wheat Loads Sampled

Again this year, cargoes of the current U.S. wheat crop arriving in Europe's major ports are being sampled for analysis by U.S. and European laboratories. This activity has proved to be one of the U.S. wheat industry's most popular and effective means of acquainting its European customers with the various types and qualities of wheats produced by the farmers of the United States.

Great Plains Wheat, Inc., which sets up the sampling program, states that about 150 European mills are regularly receiving a portion of each sample as well as a copy of the analysis. It is expected that about 80 cargoes will have undergone sampling by the end of fiscal 1969.

The Japanese Climate—A Good Cotton Salesman

In Japan, as in no other of the world's important cotton markets, climate and geography work in favor of cotton. In fact, Japan's weather often seems to work overtime, to show customers that when the International Institute for Cotton uses the slogan "comfortable because it's cotton," it speaks the simple truth.

According to T. Murayama, IIC's Director for Japan, collaboration between climate and cotton is especially noticeable in Japan's hot, sticky summers, when temperature and humidity hover together in the upper ranges of discomfort. In addition, the country boasts two rainy seasons—one in early summer and in early fall—making the Japanese natural customers for "rain or shine" cotton casual coats.

In a memorandum prepared last September for the IIC, Dr. Murayama discussed these characteristics of the Japanese climate and how the cooperative promotion program of IIC in Japan is taking advantage of them for cotton.

For the Japanese summer, Dr. Murayama says, cotton's absorbency and self-ventilating quality are ready-made. These merits were brought forward again in the 1967 cotton promotion program, after a period of aggressive promotion by producers of synthetics. That year, consumption of cotton goods increased; and during 1968 the same promotion theme brought new successes for cotton.

One success story is that of a partner in IIC's Spring-Summer Ad Campaign, the Wacoal Co., a high-prestige maker of lingerie and foundation garments, in marketing a new line called Hi-Cotton Lingeries. This line included 100-percent cotton negligees, pajamas, robes, and slips. A survey of 1,500 buyers showed that 39 percent of them bought Hi-Cotton Lingeries for the qualities that make cotton comfortable, and 34 percent for "good design." IIC concludes that Japanese buyers of cotton products are sensitive to both comfort and fashion and points out that cotton has both.

Promotion stressing cotton's absorbency and ventilation, plus improvements in the durability of cotton yarn, brought men's cotton socks back to leading department stores in quantity last summer, after an almost complete disappearance from the market some years ago.

The potency of cotton's "comfort" appeal shows in the increased attempts of manmade-fiber producers to convince the public that their fabrics too are comfortable. Some even try to capitalize on the reputation of cotton in this regard. For example, a Japanese advertisement for lingerie made of acetate-type manmade fiber claims that garments of this fiber are absorbent and stay white—because it is made of *cotton* linters.

Japanese manufacturers of manmade fibers are trying hard to improve the absorbency of their products, in silent tribute to cotton's superiority in that regard. Interfiber competition during Japan's summer turns largely on this point.

Dr. Murayama's program has three main parts: Public relations and education; retail promotion (exploiting the quasi-public nature of retailers' groups, which have the strong support of local chambers of commerce and sometimes of municipal and prefectural authorities); and advertising.

An example of locally supported retail promotion is the "Cotton Calligraphy" contest held in Matsue City last year. With school cooperation, more than 5,000 youngsters submitted artistic brush renderings of "cotton comfort" slogans.

For advertising, Dr. Murayama cites the big newspaper program of Gunze & Co., top-ranking underwear manufacturer, with its earthy and honest stress on how cotton underwear "soaks up your sweat at once and lets the air pass on."

Japan's rate of precipitation is far higher than Europe's. Rainfall tends to be heavy and concentrated, particularly in the *tsuyu* season (June-July) and the *shurin* season (September-October)—both times of relatively high temperature and humidity in Tokyo (much as in Manila). Raincoats are a must, and 100-percent cotton raincoats are ideally comfortable. Yet their share of the total raincoat market is only about 10 percent, the rest being divided among other fibers, principally blended cotton polyester and cotton acetate. The reason, says Dr. Murayama, is aggressive promotion for manmade fibers, which may have persuaded the general consumer that to be waterproof is the only function of raincoats. Thus, cotton raincoat promotion in Japan turns on the dual-purpose, "rain or shine," casual-coat approach. This has had signal success in Europe, and it is beginning to make its mark in Japan.

Children in Cotton

Promoting cotton fashions for European children, these gay Swedish models feature spring greens—she in a green-stitched cream cotton canvas tunic, worn with a green and cream striped cotton knit sweater; he in a matching sweater, worn with green cotton dungarees and green-edged cream suspenders.

"Children in European cottons" is a regular spring-and-summer program of the International Institute for Cotton.

U.S. Foods, Eastbourne

Exhibitors of U.S. foods at Eastbourne, England, agreed that the fifth annual Southern Hotel, Catering, and Licensed Trade Exhibition held there early this year gave good exposure to American catering packs among the region's resort operators. This first FAS exhibit in southern England coincided with Eastbourne's first turn at the show, which for 4 years went to Brighton.

Attendance for the 4 days (January 27-30) totaled 5,500. Off-the-floor orders included U.S. peanuts, dried fruits, dried mashed potatoes, and portion-controlled meats; orders for the summer are expected to be coming in for months.

Booths for the 11 participating British agents showed a variety of foods that interested the visiting caterers. Participators promise full support of the U.S. exhibit at Manchester in September and of next January's Hotelympia.

Four cooperating food groups, also manning booths, shared a central kitchen. Lard was shown through recipes and display pastries; rice, raisins, and poultry, through demonstrations and sampling, also carried on by several agents who handled these items at their stands.

New Australian Devaluation Compensations

By CORNELIS DE GOEDE
Office of the U.S. Agricultural Attaché, Canberra

Australia's chief market for some of its agricultural products is Britain. Some of its major competitors in selling farm produce are New Zealand, Denmark, and Spain. All these countries devalued their currencies in late 1967, leaving certain Australian products—dairy goods, sugar, canned fruit, dried vine fruit, fresh apples and pears, eggs and egg preparations, and honey—faced with the double problems of a lower priced market in Britain and competition able to undersell Australian exports because of the 1967 changes in currency valuations.

The Australian Government initiated a system of devaluation compensation payments in August 1968 to allow exporters to retain some share of their traditional markets without drastic price cuts to Australian farmers. At a 1968 end-of-the-year meeting, the Australian Government decided such payments should be continued in 1969, though the actual rates of payment have not yet been determined for all products. In general, undetermined rates are expected to be set after some 1969 exports have taken place and probable export returns can be judged.

The government view is that compensation payments for 1969 could be in the vicinity of US$34 million; devaluation compensation already approved up to the end of 1968 is about $65 million.

Dairy products

More than half of the proposed 1969 assistance is expected to go to the dairy industry—about $19 million. Compensation will be paid on exports from 1968 and 1969 production of butter (including butteroil), cheese, skim milk powder, casein, and condensery products. The payment rate will be the same as in 1968—the actual difference between exporter returns before and after devaluation. However, maximum compensation is limited to 15 percent of the predevaluation return except if competition from New Zealand can be proved to be lowering prices, in which situation up to 20 percent predevaluation return could be paid.

The government feels there is little chance at this time, because of the overseas marketing picture, for the Australian dairy industry to increase its returns from foreign sales.

Sugar

About $6.2 million is earmarked for devaluation compensation on negotiated-price sugar sold under the quota of the Commonwealth Sugar Agreement. The sum will also provide some compensation to exporters for loss of preferences in the U.K. and New Zealand markets.

Following the negotiation of a new International Sugar Agreement, Australian exporters should have no demonstrable losses because of currency devaluation on free market sales. However, if returns for 1969 production prove to be below the predevaluation level, an appropriate rate of compensation will be set by the Australian Government.

Canned fruit

Exporters of canned deciduous fruits and canned pineapple products will receive compensation totaling not more than $4.25 million for goods shipped during 1969. Payments will be on the same basis as those in 1968—the actual difference between predevaluation returns and 1969 returns. The ceiling on payments indicates government concern that shipments could be unusually high this year because of large stocks presently held by canners.

Apples and pears

No set sum or rate was announced as devaluation compensation on apple and pear exports. Rates for 1969 will be determined after some overseas sales have been made, in contrast to 1968, when rates were set before foreign marketing. However, compensation payments for 1969 are expected to be similar to those for 1968; and total expenditure could be almost $2.5 million.

Dried vine fruits

Compensation payments on exports of dried vine fruits (raisins and currants) are expected to be small—about $200,000 in 1969. For the 1968 season, producers received a total of $465,920. Fruit exported from both the 1968 and 1969 crops will be eligible for payments, and 1968 fruit will receive compensation at the 1968 rate. The 1969 rate will be determined sometime after the 1969 marketing season has begun.

Although its chief market is Britain, the dried vine fruit industry was less affected by devaluation than some other farm endeavors because under the International Sultana Agreement all price arrangements are expressed in U.S. dollars.

Eggs and egg pulp

Exports of shell eggs and egg pulp to the United Kingdom and Japan will be eligible for compensation payments during 1969. Rates will be the actual difference between exporter returns before and after devaluation. Again, however, compensation is limited to 15 percent of predevaluation returns on individual shipments.

Although Japan did not devalue its currency in 1967, the price at which the Australian Egg Board sells to Japan is based, by agreement, upon the price in the United Kingdom. Therefore, the value of egg sales to Japan decreased sharply at the time of the 1967 devaluation. Total compensation payments for eggs and egg pulp for 1969 are expected to be close to $95,000.

Honey

Compensation to honey exporters will continue at approximately the same rate as in 1968—about 1.45 U.S. cents per pound—although the exact rate will not be set until mid-1969 when this year's marketing picture becomes more precise. Devaluation compensation will be paid to the industry, as last year, through the Australian Honey Board.

The government's decision to continue compensation on honey exports is based on the anticipation that export returns during 1969 will be materially reduced because of the continuing effects of devaluation. Britain is the chief overseas market for Australia's honey.

Compensation outlook

The Australian Government has not yet made any statement on its future policy on compensation payments. However, with a general election coming up at the end of 1969, pressures by agricultural industries on the government to continue devaluation compensation will be strong. The dairy industry especially, beset with mounting competition from heavily supported Common Market producers, will want continuing compensation.

The danger in the current situation is that some rural industries may expect compensation payments to be continued indefinitely. The Australian Treasury is becoming concerned about this tendency and has urged a gradual reduction in payments as exporters adjust to the new circumstances. Other Australian economic commentators have pointed out that devaluation compensation payments could become a type of export subsidy with the usual poor enonomic results of such schemes. Usually government compensation for low-price exports has led to increased production of agricultural goods that are already in surplus on the world market and even greater stocks that cannot be exported at prices profitable to the selling country.

The present expectation is that compensation payments will again be available in 1970—at least for some commodities, such as dairy products and apples and pears. Some minor exports, or those not so seriously affected by devaluation, may have decreased payments or be expected to make their own way on the world markets.

Paraguay: Analysis of 1968 Farm Gains and Losses

A complicated interaction of drought, encouraging or discouraging prices for various farm commodities, and high transportation costs to point of export affected the production and sale of agricultural goods in Paraguay in 1968. In general, more commodities showed declines in production than gains for the year.

The drought, which persisted for much of 1968, seriously cut output of sugarcane, soybeans, corn, and fruits. For example, the production of refined sugar, which was expected to be about 38,000 metric tons, was only 32,000 tons because of severe damage to cane fields. Corn output fell to 180,000 metric tons for 1968 compared to 277,000 tons in 1967, a bumper crop. The 1968 soybean crop is placed at 13,500 metric tons—considerably less than last year's. Fruit production for 1968 is estimated at 20 percent lower than in 1967.

Some other commodities had reduced output or sales more because of unfavorable prices than poor weather. The 1968 government-fixed beef-slaughter quota was 250,000 head of cattle for export packers—but the packers got only 170,000 head to process. Ranchers were unwilling to deliver more cattle at the prices offered by packers, who said they could not pay higher prices and still compete in the export market. High transportation costs to Buenos Aires, the sale point for beef exports, cut packers' profits. Sales of canned beef, Paraguay's principal export commodity, were only 16,900 metric tons in 1968 through November compared to 26,000 tons for 1967.

Another commodity affected by poor producer prices was tung oil. The 1968 harvest of tung nuts was 11,000 metric tons less than the 1967 figure even though field production of nuts may have been higher than in 1967. Low prices to farmers caused a high rate of crop abandonment.

The 1968 wheat crop was about 20,000 metric tons, or almost three times the 1967 harvest of 7,000 tons. Wheat production was an exception to the general trend for grains. The increase was mainly because of the high guaranteed wheat prices and loans available for producers, part of the government's Five Year National Wheat Plan.

The object of the government's wheat plan is to make the country self-sufficient in this foodstuff. At present about 100,000 metric tons of wheat are consumed each year in Paraguay, most of which is imported. The outlay of foreign exchange to purchase wheat is a major factor in Paraguay's balance of payments, and higher in-country wheat production would decrease foreign spending and improve the financial position of the nation. Another increase in wheat production is planned for 1969.

Several crops showed modest advances in output in 1968. Raw cotton production totaled 30,100 metric tons compared to the previous year's output of 26,700 tons. Prices were good and were generally about 30 percent higher than those in 1967. Tobacco production was up slightly and totaled 15,000 metric tons in 1968. Exports from January through November 1968 were 11,685 tons. Coffee output was estimated at 3,000 metric tons for 1968 and was up from the subnormal 1967 level. Exports through November of 1968 were 2,442 tons.

Paraguay's efforts to expand its agricultural exports are hampered by its landlocked location. Goods for foreign sale must be loaded in small vessels and taken about 1,000 miles down the Paraná River to Buenos Aires, the closest convenient port. At Buenos Aires, freight must be transshipped from the small vessels onto bigger ones. The expense is different for different commodities. Canned beef costs about $12 per metric ton to ship; bulk corn is about $8.50 per ton; refrigerated shipments are much more expensive. Worst of all, low water may make the river impassable to freight boats.

The high transportation costs to point of export leave Paraguay at a distinct disadvantage in competing with suppliers with easy access to major trade channels. Because merchants must pay high freight costs, they generally can give only low prices to producers if their goods are not going to be much more expensive than their competitors'.

In the future Paraguay may try air shipments of high-value products such as choice beef cuts and processed foods. But bulk commodities would not be worth transporting by air and will have to depend on the river route. It seems unlikely that Paraguay's agricultural exports will be able to make much headway in volume in such unfavorable conditions.

—Based on dispatch from JOSEPH C. DODSON
U.S. Agricultural Attaché, Buenos Aires

SOME IMPORTANT FOOD CROPS IN PARAGUAY

Crop	Area		Production	
	1967	1968	1967	1968
	Acres	*Acres*	*Metric tons*	*Metric tons*
Bananas	20,500	21,700	152,000	115,000
Manioc	271,920	281,694	1,542,900	1,503,800
Corn	617,750	630,100	277,100	180,000
Sugarcane	81,543	81,543	1,046,300	700,000
Sweet potatoes .	30,887	32,123	122,500	85,300
Oranges	72,400	76,601	234,000	185,000

CROPS AND MARKETS SHORTS

Weekly Report on Rotterdam Grain Prices

Between February 12 and February 19, 1969, offer prices of wheat in Rotterdam for U.S. Soft Red Winter and USSR 121 wheat decreased by 1 cent and Canadian Manitoba by 4 cents. U.S. Spring increased by 1 cent; all others remained unchanged.

U.S. corn advanced by 2 cents and Argentine by 1 cent. South African White was not quoted.

Item	Feb. 19	Feb. 12	A year ago
	Dol. per bu.	*Dol. per bu.*	*Dol. per bu.*
Wheat:			
Canadian No. 2 Manitoba	2.01	2.05	2.01
USSR 121	1.93	1.94	1.93
U.S. No. 2 Dark Northern Spring 14 percent	1.91	1.90	1.94
U.S. No. 2 Hard Winter 14 percent	1.90	1.90	1.82
Argentine	1.84	1.84	1.80
U.S. No. 2 Soft Red Winter	1.73	1.74	1.75
Corn:			
U.S. No. 3 Yellow	1.40	1.38	1.41
Argentine Plate	1.43	1.42	1.58
So. African White	([1])	([1])	1.47

[1] Not quoted.

EC Quotas for Turkish Fruits, Nuts

The European Economic Community has established calendar 1969 preferential tariff quotas and preferences for raisins, dried figs, and filberts imported from Turkey.

Initial allocations, by country, were made covering 15,625 tons of raisins, 31,890 tons of dried figs, and 16,187 tons of filberts. The balance of the quotas is reserved for allocation according to the actual development of trade.

Quotas and preferences for Turkey are established annually in accordance with the EC-Turkish Association Agreement; similar quotas were established in 1967 and 1968.

1969 EC TARIFF QUOTAS AND PREFERENCES FOR TURKEY

Item	Quotas	Preferential duty	Third-country duty
	Short tons	*Percent ad valorem*	*Percent ad valorem*
Raisins in packages of 15 kg. or less	20,833	4.7	6.0
Dried figs in packages of 15 kg. or less	42,516	.0	10.0
Filberts, fresh or dried, shelled or not	20,613	2.5	7.0

Italian Export Subsidy on Cherries

Italy has announced a new subsidy on exports of canned cherries in syrup. Effective January 1, 1969, all shipments of canned cherries to countries outside the European Common Market will be subsidized at the rate of 1.8 cents per pound. (This subsidy was erroneously reported as covering brined cherries in the Jan. 6, 1969 issue of *Foreign Agriculture*.)

Tunisia's Tobacco Industry

Tobacco marketing, processing, and trade in Tunisia is entirely controlled by the National Tobacco Monopoly. The Monopoly registers all tobacco cooperatives and individual growers and provides production services.

Tobacco products are manufactured entirely in the Tobacco Monopoly's new plant in Tunis. Annually the plant manufactures about 8 million pounds of products including cigarettes, cigars, cigarillos, cut tobacco, and snuff.

An estimated production of 5 to 6 million pounds, mostly dark air-cured leaf, is grown and about 4.5 million pounds of leaf were imported in 1967. The United States provided 1.4 million pounds, mostly flue-cured and burley for blending, in 1967 or about one-third of the imported leaf. A P.L. 480 Title I agreement including tobacco is currently in effect for Tunisia.

U.S. Exports of Soybeans, Oils, and Meals

U.S. exports of soybeans in December 1968 totaled 38.5 million bushels, an increase of 42 percent over the same month in 1967 despite the longshoremen's strike which began on December 20, 1968. The September-December export total reached 135.1 million bushels compared with 107.2 million in the previous year. Exports during the current period rose significantly since most major markets, including the European Community, Japan, Canada, Spain, and the Republic of China, increased their purchases of soybeans in advance of the strike.

Soybean and cottonseed oil exports totaled 124.9 million pounds, more than twice the quantity shipped last December. Heavier shipments of soybean oil in December to countries participating in Public Law 480 programs boosted the cumulative soybean oil total to 259.3 million pounds. Last year's exports, however, totaled 269.3 million pounds in the October-December period. Cottonseed oil exports—all commercial sales—totaled 25.7 million pounds in the current 3-month period, indicating a gain of 10.6 million over the preceding year. The cumulative total for both oils now stands at 285.0 million pounds—virtually the same as last year's total of 284.4 million.

Exports of soybean meal totaled 341,900 tons, 6 percent above December exports a year earlier. During the October-December period, soybean meal exports reached 811,100 tons, an increase of nearly 75,000 tons over the previous year. The 564,200 tons shipped to the European Community represented 70 percent of the total and an increase of 13 percent over last year. Larger quantities of soybean meal also were exported to Poland, Spain, Yugoslavia, Switzerland, and Ireland, but less soybean meal was shipped to Canada and the United Kingdom.

Total cake and meal exports during the first quarter of the marketing year reached 863,100 tons, 7 percent above last year's total. Increased exports of soybean meal more than offset the decline in exports of linseed and cottonseed meals.

U.S. EXPORTS OF SOYBEANS, EDIBLE OILS, AND OILCAKES AND MEALS

Item and country of destination	Unit	December 1967[1]	December 1968[1]	September-December 1967-68[1]	September-December 1968-69[1]
SOYBEANS					
Belgium-Luxembourg	Mil. bu.	.8	1.0	4.1	4.3
France	do.	0	([2])	.3	.2
Germany, West	do.	4.5	6.9	14.8	16.0
Italy	do.	1.0	2.5	6.7	9.3
Netherlands	do.	5.6	6.0	18.6	21.2
Total EC	do.	11.9	16.4	44.5	51.0
Japan	do.	4.6	7.6	23.5	28.2
Canada	do.	3.1	3.4	11.7	18.9
Spain	do.	3.2	5.3	9.3	13.6
China, Taiwan	do.	1.2	1.4	3.6	6.9
Denmark	do.	2.2	2.1	6.5	6.6
United Kingdom	do.	.7	.8	2.6	2.6
Others	do.	.3	1.5	5.5	7.3
Total	do.	27.2	38.5	107.2	135.1
Oil equivalent	Mil. lbs.	298.6	422.2	1,176.7	1,483.1
Meal equivalent	1,000 tons	639.1	903.7	2,518.5	3,174.2

EDIBLE OILS	Unit	December 1967[1]	December 1968[1]	Oct.-December 1967-68[1]	Oct.-December 1968-69[1]
Soybean:[3]					
India	Mil. lbs.	4.1	66.6	104.5	112.0
Pakistan	do.	0	0	37.3	36.8
Morocco	do.	0	11.0	2.3	21.7
Chile	do.	([4])	12.3	1.3	14.1
Israel	do.	2.6	1.9	18.9	12.2
Iran	do.	.6	10.3	1.0	10.3
Canada	do.	1.0	2.7	7.3	9.0
Peru	do.	([4])	.1	2.5	7.0
Vietnam, South	do.	3.5	0	8.3	6.3
Haiti	do.	.7	1.5	3.6	4.5
Dominican Republic	do.	4.7	.9	9.3	3.7
Others	do.	39.3	8.0	73.0	21.7
Total	do.	56.5	115.3	269.3	259.3
Cottonseed:[3]					
Venezuela	do.	2.8	6.6	11.3	20.0
Canada	do.	.5	1.1	2.1	3.2
Netherlands	do.	0	1.5	0	1.5
Others	do.	.7	.4	1.7	1.0
Total	do.	4.0	9.6	15.1	25.7
Total oils	do.	60.5	124.9	284.4	285.0
CAKES AND MEALS					
Soybean:					
Belgium-Luxembourg	1,000 tons	75.6	17.3	105.2	50.7
France	do.	62.5	38.2	111.3	122.8
Germany, West	do.	35.7	76.2	157.6	193.0
Italy	do.	9.3	31.3	18.4	62.2
Netherlands	do.	42.9	73.8	105.1	135.5
Total EC	do.	226.0	236.8	497.6	564.2
Canada	do.	21.2	16.0	61.6	55.6
Poland	do.	.2	23.2	13.9	34.0
Spain	do.	([5])	0	.1	31.4
Yugoslavia	do.	9.8	19.3	24.8	28.6
United Kingdom	do.	2.2	7.9	28.9	18.9
Switzerland	do.	0	2.0	.7	12.4
Ireland	do.	3.7	5.5	6.9	10.9
Others	do.	60.2	31.2	102.0	55.1
Total	do.	323.3	341.9	736.5	811.1
Cottonseed	do.	4	.2	1.1	1.0
Linseed	do.	4.5	0	58.8	30.0
Total cakes and meals[6]	do.	333.6	350.0	809.5	863.1

[1] Preliminary. [2] Less than 50,000 bushels. [3] Includes shipments under PL 480 as reported by Census. [4] Less than 50,000 pounds. [5] Less than 50 tons. [6] Includes peanut cake and meal and small quantities of other cakes and meals.

Bureau of the Census.

Dry Weather Threatens Mauritius Cane

An unusually dry spell is seriously threatening the sugarcane crop in Mauritius as water shortage has forced reductions in irrigation supplies. By the end of October 1968 rainfall for the year had totalled only 96.7 inches instead of the normal 134.6 inches. In November only one-half inch of rain fell in eastern Mauritius instead of the usual 6 inches. In the second half of December, rainfall totaled about one-third of the seasonal normal.

Sugar estate owners say their crop is a month late, and good rains are needed or the sugar production may be greatly reduced. Mauritius produces about 700,000 tons of sugar yearly and exports some 90 percent of total production.

Cotton Textile Activity In Italy

The Italian cotton textile industry experienced a downturn in activity during the 1967-68 year, after having reached a record cotton offtake in 1966-67. Consumption of raw cotton during the 1967-68 year totaled 1,029,000 bales (480 lb. net), compared with the alltime high of 1,110,000 bales in 1966-67. The lower offtake in 1967-68 is attributed in part to a slackening of domestic demand for consumer goods and some buildup of textile stocks in the earlier year. However, import demand for Italian cotton products is strong and domestic demand is again strengthening. Thus, cotton consumption in the current year may be higher than in 1967-68.

Imports of raw cotton during the 1967-68 season were about 16 percent below the imports in the preceding season. The decrease was due to a high carryover in raw cotton stocks at the beginning of the season and the slowdown in the Italian cotton textile industry. Major suppliers of raw cotton to Italy in the 1967-68 season and the quantities supplied (1966-67 figures in parentheses) were: United States 330,000 bales (327,000); Turkey 151,000 (186,000); Mexico 133,000 (223,000); Egypt 78,000 (107,000); Sudan 73,000 (75,000); and USSR 57,000 (58,000). Raw cotton imports in the current season are expected to be near the 994,000 bales imported in 1967-68.

Production of cotton in Italy is extremely small, and in recent years has amounted to around 10,000 bales.

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French Discussing Switch From Milk to Meat Output

The French Ministry of Agriculture is holding discussions with various farm organizations on proposed incentives to encourage farmers to switch from milk to meat production and use milk for feeding calves.

Originally presented to the National Assembly by Minister of Agriculture Robert Boulin in mid-November, the proposals aim to curb France's growing dairy surplus and lighten its meat deficit. Like other EC members France faces the problem not only of getting rid of the symptom—the current large stocks of dairy products—but also of eradicating the cause—a system that continues to produce these surpluses.

As of January 12 the French dairy price support agency, Interlait, had 155,441 metric tons of butter, 20,777 of cheese, and 142,089 of nonfat dry milk in storage. Yet French farmers—because of the price support system—annually switch 50,000 cows from meat to milk production at a time when the country must import increasing quantities of meat from Belgium, the Netherlands, Hungary, Yugoslavia, and other countries to meet domestic needs.

The proposals

The proposals divide into two parts: the conversion plan and the meat production incentive plan.

Under the conversion plan any farmer who agrees to convert his entire herd from milk to meat production could receive from the government up to $45 per year for up to 5 years for each cow. Farmers who are members of a farm group—a small organization of farmers who share facilities and equipment—would be eligible for a bonus of $10 per head each year. For each milk cow slaughtered, the government would pay a bonus of up to $100 to compensate for its loss of value as a milk producer. The government would also make money available at interest rates of about 3 percent to farmers who wish to purchase foundation stock for establishing beef herds.

Under the meat production incentive plan—open only to farmers who are members of farm groups—a farmer could receive up to $15 from the government for each calf raised on natural milk rather than on milk replacers. He could receive $15 plus a bonus of $10 for each calf he buys from other members of his group and raises on natural milk. The government would also pay a bonus of up to $20 to farmers for fattening thin animals destined for the slaughterhouse.

Test project underway

An estimated 300,000 cows would have to be taken out of commercial milk production just to stabilize French milk output at its present level. The French farm price support agency, F.O.R.M.A., has allocated $8 million for a test project to encourage conversion of 100,000 cows to meat production. In contrast, it costs an estimated $24 million to support the surplus dairy products from 100,000 cows. This difference in cost seems to be the basis for farmers' criticism that the proposed incentives are not adequate to replace the steady income that selling milk provides for France's many small dairy farmers. As of January 1, 1967, 70 percent of the 1.2 million dairy herds in France had 9 cows or fewer, and these herds accounted for 43 percent of the total number of milk cows.

Mr. Boulin's proposals are very similar to those for the entire EC contained in the Mansholt Plan presented in mid-December. Dr. Sicco Mansholt, EC Commission Vice President in Charge of Agriculture, proposed that EC dairy farmers slaughter 3 million cows over a 5-year period. To encourage farmers to do this, he suggested a $300 per head bonus for slaughtering dairy cows, a bonus of $75 per year for 3 years for each milk cow slaughtered and replaced by a beef cow, and a bonus of $10 per 100 kilograms (220 lb.), live-weight, for beef animals fattened on grain.

—JAMES M. BENSON
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